

# AUDIT REPORT

## NON-NUCLEAR WEAPONS PARTS AT THE ROCKY FLATS ENVIRONMENTAL TECHNOLOGY SITE



JUNE 2000

U.S. DEPARTMENT OF ENERGY  
OFFICE OF INSPECTOR GENERAL  
OFFICE OF AUDIT SERVICES



June 29, 2000

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman (Signed)  
Inspector General

SUBJECT: INFORMATION: Audit Report on "Non-Nuclear Weapons  
Parts at the Rocky Flats Environmental Technology Site"

BACKGROUND

Under its production mission, the Rocky Flats Environmental Technology Site produced nuclear and non-nuclear weapons and components for the nation's nuclear weapons arsenal. When such activities ended in 1995, a significant number of weapons parts and components were left behind that needed to be accounted for, managed, and eventually removed as part of the Site's cleanup and shutdown mission. Available records showed that about 200,000 completed weapons parts, valued at about \$38.5 million, were onsite in March 1996. There was also approximately \$17.7 million worth of partially completed parts onsite. The objective of this audit was to determine if the Rocky Flats Field Office (Rocky Flats) and its contractor, Kaiser-Hill Company, LLC, accounted for and properly disposed of the remaining weapons parts.

RESULTS OF AUDIT

The audit raised concerns about the adequacy of controls over classified and unclassified weapons parts at Rocky Flats. Specifically, we found that:

- Rocky Flats could not account for its weapons parts, did not know what parts it still had or what parts it had shipped offsite;
- Rocky Flats disposed of parts and components needed by other Department sites;
- The Contractor did not maintain inventory records detailing the quantities, types, serial numbers and locations of the weapons parts and components, nor did it screen the parts prior to disposal; and
- Rocky Flats could not support or accurately report the value of the non-nuclear parts inventory on the Department's financial statements.

In addition, we found instances where employees were using weapons parts as candy dishes and paperweights. While a Rocky Flats security inquiry into this matter determined that there was no compromise of classified data, the use of weapons parts in this way illustrated our concern with the overall process in place to control these items.



## MANAGEMENT REACTION

The Rocky Flats Field Office generally concurred with the report's recommendations. Management contended, however, that a detailed inventory of non-nuclear parts was not required because management considered the remaining parts to be of no value. Management also asserted that the processes in place were adequate to protect the remaining parts and identify those needed elsewhere in the complex. Nevertheless, management conceded that, "an alternative method of recording the remaining inventory balance and preparing the necessary transfer documentation could have and should have been implemented." This included, according to Rocky Flats officials, the update of logs reflecting the completion of individual requirements and the maintenance of complete support documentation with the shipping documents. Further, we were informed that, since the initiation of the audit, Rocky Flats has endeavored to reconstruct the classified portion of its weapons inventory.

Additional details on management's position and the Office of Inspector General response are summarized in the report.

Attachment

cc: Deputy Secretary  
Under Secretary  
Under Secretary for Nuclear Security



# NON-NUCLEAR WEAPONS PARTS AT THE ROCKY FLATS ENVIRONMENTAL TECHNOLOGY SITE

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# OVERVIEW

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## INTRODUCTION AND OBJECTIVE

The Rocky Flats Environmental Technology Site (Site) was once part of the DOE's nuclear weapons production complex. From 1952 to 1989, the Site's primary mission was the production of nuclear and non-nuclear parts and components for the nation's nuclear weapons arsenal. In 1989, nuclear production work ended but non-nuclear production activities continued through 1995. As production requirements diminished, the Site's mission slowly transitioned to cleanup and shutdown. Responsibility for the Site also changed from the Office of Defense Programs to the Office of Environmental Management. The Rocky Flats Field Office (Rocky Flats) was responsible for the day-to-day oversight of the Site's operating contractor, Kaiser-Hill Company, LLC (the Contractor).

The audit focused on weapons parts that were managed as part of the cleanup and shutdown of the Site. The weapons inventory consisted of both classified and unclassified parts such as intricate "3T-reservoirs" and hemi-shells of bonded materials including stainless steel, beryllium, uranium, and aluminum. These and many other parts were once used to manufacture nuclear weapons and for reliability testing, and research and development.

Records available at the time our audit began showed that about 200,000 completed weapons parts were onsite in March 1996. The value of these parts was approximately \$38.5 million. Additionally, there were approximately \$17.7 million worth of partially completed parts. The Manufacturing Resources Planning system, used to account for the inventory, was discontinued shortly after March 1996. Even though the inventory system was outdated and parts were no longer in production, Rocky Flats was responsible for identifying and transferring the remaining weapons parts to other locations within DOE's weapons complex. Under DOE's reconfiguration program, six major non-nuclear production missions were transferred to either the Kansas City Plant (Kansas City) or the Los Alamos National Laboratory (Los Alamos). Thus, these sites had a need for certain weapons parts and, in fact, a large number of parts were shipped to both sites. Rocky Flats was also responsible for disposing of unneeded weapons parts. The objective of this audit was to determine whether Rocky Flats and the Contractor accounted for and properly disposed of its weapons parts.



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## CONCLUSIONS AND OBSERVATIONS

Rocky Flats and its Contractor did not always account for and properly dispose of its weapons parts. Specifically, Rocky Flats did not always identify weapons parts that it had transferred or disposed of and could not accurately account for the remaining inventory. There were examples, as illustrated in the details of the report, where Rocky Flats had disposed of parts needed by other DOE sites. These situations occurred because Rocky Flats did not require the Contractor to maintain an accurate inventory record detailing the quantities, types, serial numbers, and locations of its weapons parts. Additionally, Rocky Flats and its Contractor did not always screen the parts prior to disposal. Further, some performance measures focused on cleanup at the expense of proper disposal practices. As a result of these conditions, Rocky Flats lost control of weapons parts and disposed of weapons parts needed elsewhere by DOE. Since Rocky Flats could not support or accurately account for its weapons parts, it could not accurately report the value of its inventory on DOE's financial records. Therefore, we recommended that the Manager, Rocky Flats Field Office, identify and screen weapons parts prior to disposal, forward parts in demand to where they are needed, control accountable parts, and document the contents of shipments offsite. We also recommended that the Manager clearly define the requirements to identify and segregate weapons parts when establishing performance measures involving the disposition of weapons parts.

The conclusions reached in this report are similar to recent Office of Inspector General audits on DOE's management of inventories. In July 1999, we issued *The U.S. Department of Energy's Non-nuclear Materials Inventory at the Kansas City Plant*, DOE/IG-0450. This audit concluded that non-nuclear parts valued at about \$275 million had not been reviewed and approved for disposal, even though Kansas City had made a preliminary determination that these parts were no longer needed. In report CR-B-99-02, *Management of Unneeded Materials and Chemicals*, we found that DOE's disposition of unneeded materials was inefficient. Both of these audits indicated a need for a more proactive approach to managing DOE's inventories.

Further, the conclusions of the current report are similar to past property management issues at the Site. In 1994, the General Accounting Office (GAO) issued report RCED-94-77, *Department of Energy: The Property Management System at the Rocky Flats Plant Is Inadequate*. This audit found that the Site's contractor had an inadequate property management system and could not accurately determine how much property was present at the Site, was lost, or was stolen. In the follow-up report RCED-96-39, *Department of Energy: Property Management Has Improved at DOE's Rocky Flats Site*, GAO



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noted that DOE had not fully implemented its recommendation to correct the inaccurate data in the property tracking system. Additionally, in 1998, Rocky Flats' internal assessment report 98-003-AMD-PRO, "For Cause" Property Review, found that the Contractor had no records of its weapons parts, had not inventoried its disposal shipments, and was destroying property without adequate authorization.

Management should consider the matters discussed in this report when preparing its yearend assurance memorandum on internal controls.

(Signed)

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Office of Inspector General



## WEAPONS PARTS AT THE SITE

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### Accounting For and Disposing of Weapons Parts

Rocky Flats and its Contractor could not account for its weapons parts and there were examples where Rocky Flats had disposed of needed weapons parts. Specifically, Rocky Flats did not know what parts it still had or what it had shipped offsite. In fact, we found that employees were using weapons parts as candy dishes and paperweights<sup>1</sup>. Further, one employee had even taken a weapons part home. Rocky Flats officials explained that the employees had probably obtained the parts from scrap crates or from other employees. Prior to the audit, however, management did not know that the parts were missing or that the employees had taken some parts as souvenirs.

Further, Rocky Flats did not know the location of all its weapons parts. In 1997, for example, classified weapons parts were discovered on at least 13 different occasions in building 444. These parts were found, during joint walk-throughs conducted by Rocky Flats and Contractor personnel, despite assertions by the Contractor that all classified parts had been removed from the building. Further, since officials believed that all classified parts had been removed, security controls had been downgraded. In responding to our inquiries, a Contractor employee pointed out that weapons parts from many different locations had been consolidated within building 444 as part of the cleanup effort. However, the consolidation effort did not require that these parts be identified before they were relocated.

Similarly, Rocky Flats also did not always identify weapons parts that it transferred to other DOE locations or shipped to disposal sites. The table below illustrates the results of our review of 50 shipments that we determined contained weapons parts. (See Appendix 1 for the basis of sample selection).

SHIPMENTS CONTAINING WEAPONS PARTS

Parts Shipped Were	Transfers	Disposals	Totals
Completely Identified	20	2	22
Partially Identified	1	2	3
Not Identified	6	19	25
<b>Totals</b>	27	23	50

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<sup>1</sup>A Rocky Flats employee reported a security incident concerning the parts found in the possession of employees because the parts were initially thought to be classified. Approximately 30 parts were recovered and secured, one of which was a classified part. A subsequent inquiry, however, concluded that classified information was not compromised.



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As the table shows, in 50 percent of the shipments reviewed, Rocky Flats had not identified the weapons parts transferred to other sites or shipped for disposal.

We determined that, in some cases, weapons parts were disposed of although some of these parts were needed by other DOE sites. Also, we noted that additional disposal actions were planned for parts needed by other sites. For example, Rocky Flats intended to dispose of 14 3T-reservoir parts; however, we confirmed that there was a need for these parts at Los Alamos. Rocky Flats disposed of other reservoir parts in September 1997 that matched the types previously requested by Los Alamos in April 1995. Building walk-throughs conducted with the assistance of a knowledgeable subject matter expert also identified several weapons parts that may be needed elsewhere, for instance Lawrence Livermore National Laboratory, Los Alamos, and Kansas City. To prevent the inadvertent disposal of needed weapons parts, we requested that the Albuquerque Operations Office circulate a list of these parts to determine if they were needed at other sites within DOE. In March 2000, Los Alamos stated that it wanted the stainless steel transfer tubes and other tube assemblies identified during the walk-throughs. Other parts on this list included ones previously requested by both Los Alamos and Kansas City. Further, an earlier review conducted by Rocky Flats reported similar results.

## **Accounting and Disposal Requirements and Responsibilities**

The requirements to account for and dispose of government-owned property, including weapons parts, are contained in DOE regulations and orders. Since weapons parts are accountable property and under financial control, an adequate property management system is needed to provide for, among other things, adequate records, periodic physical inventories, and a process to screen property for other uses. Adequate inventory records, for example, provide information on quantities, types, serial numbers, and locations of the on-hand inventory. Further, receipts identifying the property transferred should account for the parts disposed of or shipped to other DOE sites. Proper disposal procedures include a formal screening process to identify and list parts no longer needed at one location to determine if the parts could be used elsewhere.

Although Rocky Flats was ultimately responsible, the Contractor was the custodian of the weapons parts. Contractually, the Contractor was to provide property management and inventory control functions at the Site. The Contractor's Property Management Manual states that property records must be accurately maintained to ensure proper control and accountability of the property in accordance with Federal regulations and sound business practices. Under the Federal Acquisition Regulation (FAR), the Contractor is directly responsible



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and accountable for all government-owned property it accepts and must provide a complete, current, and auditable record of all transactions. The FAR also requires that property be screened for other uses before disposition.

**Lack of Accounting  
and Improper  
Disposal Occurred  
for Several Reasons**

There were several reasons why Rocky Flats and its Contractor had not accounted for or properly disposed of parts. Rocky Flats did not require inventory records of the weapons parts and did not always screen the parts prior to disposal. Further, some contractor performance measures focused on cleanup at the expense of proper disposal practices. This raises concerns about the lack of internal controls over classified and unclassified weapons parts.

Inventory Records Not Required

The last inventory of weapons parts conducted at the Site occurred in June 1995, before the Contractor took over at the Site. However, this inventory covered only the classified parts. Subsequently, the Manufacturing Resources Planning system previously used to account for weapons parts was discontinued. Rocky Flats approved the action to discontinue accounting for weapons parts based on the Contractor's argument that a security initiative called "modified accountability" eliminated the requirement to maintain an inventory record of weapons parts. Further, Rocky Flats officials stated that inventories of weapons parts were not conducted after the Contractor took over because management believed that the cost of conducting an inventory was not commensurate with the benefits to be derived. Thus, Rocky Flats did not have a baseline inventory for the weapons parts.

Weapons parts inventories are needed to maintain financial control of the weapons parts. However, the Contractor continued to maintain an inventory of personal property and equipment such as lathes, drill presses, microscopes, and computers. Thus, while the Contractor could identify and account for personal property and equipment by quantity, type, and location it could not do the same for weapons parts. These parts, in some cases, may have been needed by other sites within DOE.

Formal Screening Prior to Disposal

At one time, Rocky Flats had screened its weapons parts and circulated a list of those parts to other locations. However, this was not being done at the time of our audit and Rocky Flats could not show that it had formally screened the 23 shipments packaged for disposal that we reviewed. Instead of following a formal screening process, Rocky Flats relied on building walk-throughs by personnel from other sites and subject matter experts to identify needed weapons parts. This informal



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process was not effective because not all weapons parts were accessible for screening. For example, many parts were already packaged in drums and crates. Additionally, subject matter experts told us that they were excluded from or ignored during packing operations because they slowed disposal operations down.

### Performance Measures

In accordance with the Government Performance and Results Act, performance measures were used at the Site to enhance the cleanup operations. The measures, however, did not focus on the identification and segregation of weapons parts. In 1997, for example, Rocky Flats had a measure to remove classified weapons parts out of certain buildings so that security controls could be downgraded. We were informed that in order to meet the measure the Contractor had to quickly remove large quantities of parts. However, the Contractor did not always take the time to segregate weapons parts that may be needed elsewhere or identify the contents of subsequent shipments. Rocky Flats had identified similar problems with segregating weapons parts and inventorying shipments in its February 1998 internal assessment. The assessment reported that the Contractor did not properly segregate weapons parts because the Contractor wanted to meet its performance measure.

### **Lack of Accounting Records**

Without accurate inventory records, Rocky Flats could not control weapons parts, detect losses, or identify weapons parts needed elsewhere in DOE. For example, as noted previously, Rocky Flats planned to destroy 14 "3T reservoirs" that cost about \$350,000 to produce. We found that the reservoirs were, in fact, needed at Los Alamos. This is a matter of even greater concern since we were told by an Albuquerque official that DOE does not currently have the capability to produce the reservoirs. Further, since some weapons parts are classified, lost parts could pose a security risk. Finally, a Rocky Flats official stated that without accurate inventory records, there is no way to assure that weapons parts did not disappear when security controls were downgraded.

In addition, not identifying the contents of a shipment could raise issues with respect to transportation requirements, environmental concerns, and handling procedures. For instance, there can be no assurance as to whether non-inventoried shipments of weapons parts contain radioactive and hazardous materials. Knowing the contents of each shipment, therefore, helps to avoid numerous problems.

Finally, Rocky Flats could not accurately report the value of its weapons inventory on its financial statements. When the Contractor



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took over at the Site, the value of the completed weapons inventory was reported to be \$70 million. Later, the value was reduced to \$59 million and then to \$25 million. However, all these figures were unsupported because inventory records were not maintained. Based on the audit results, we questioned even the \$25 million balance because an undeterminable amount of the parts already had been disposed of or shipped off-site. In fact, during the audit Rocky Flats adjusted the value of its inventory to zero.

## **Management Actions**

Since the audit began, the Contractor has attempted to reconstruct the classified portion of its weapons inventory. It now claims that it can account for about 60 to 70 percent of its classified parts. We have not verified the Contractor's claim. On November 16, 1999, the Albuquerque Operations Office provided guidance to Rocky Flats to facilitate its weapons parts identification process. Albuquerque provided general categories of items that may still be of use to Los Alamos and Kansas City and requested that these sites be notified if any of the listed items were found at the Site during the closure process. Finally, if additional weapons parts are found, Rocky Flats plans to inventory and record a value for these parts on DOE's financial statements.

While we appreciate the importance of an expedited cleanup and shutdown of the Site, management officials need to ensure weapons parts are identified, parts in demand are forwarded to where they are needed, accountable parts are controlled, and the contents of shipments are documented.

## **RECOMMENDATIONS**

We recommend that the Manager, Rocky Flats Field Office, establish controls to ensure that the Contractor:

1. Identifies and screens weapons parts prior to disposal;
2. Forwards weapons parts to sites where they are needed;
3. Controls accountable weapons parts; and,
4. Documents the weapons parts shipped offsite.

In addition, the Manager, Rocky Flats Field Office, should clearly define the requirements to identify and segregate weapons parts when establishing performance measures involving the disposition of weapons parts.

## **MANAGEMENT REACTION**

Management generally concurred with the recommendations. Management also offered the following additional comments on the finding.



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**Management Comments:** Rocky Flats stated that non-nuclear weapons parts are not treated as other personal property such as furniture, equipment or vehicles that are covered by the DOE Property Management Regulations (DOE-PMR). Except for the application of high risk, proliferation-sensitive property requirements, these non-nuclear weapons parts fall outside the scope of the DOE-PMR. According to the DOE-PMR, non-nuclear weapons parts are not reportable and shall not be formally screened within the DOE or reported to the General Services Administration (GSA). Management proposed an informal screening process, which the DOE's Property Management Officer agrees to support.

**Auditor Comments:** Although it is important to control sensitive property, it is even more important to ensure that available weapons parts that are no longer in production are preserved for future use within the weapons complex. This is difficult to achieve when the organization views such parts as ordinary property rather than as items vital to the reliability of established weapons systems.

**Management Comments:** Rocky Flats entered into a new contract with Kaiser-Hill Company, LLC effective February 1, 2000. The new contract replaced the incremental measures addressing significant activities necessary for achieving site closure with a single performance measure to close the Site. While the single performance measure under the new contract is to complete site closure, Kaiser-Hill is required to comply with all applicable laws, regulations and orders that would protect and control non-nuclear weapons parts and insure these parts are disposed of in a safe and secure manner.

**Auditor Comments:** To comply with the Government Performance and Results Act, Rocky Flats should have a way to measure the contractor's performance in controlling the weapons parts in its possession.

Regarding our recommendations, Management still needs to submit detailed corrective action plans with milestones for the recommendations.



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**Additional Management Comments:** Management provided the following detailed comments on the finding.

Rocky Flats contended that identification of what was at the Site and the quantity of those items was no longer needed. The non-nuclear weapons parts were considered to have no value; thus, controlling them was no longer needed. Rocky Flats' assertion was that it was confident that it had met all of the expectations of the Office of Defense Programs and Albuquerque. Rocky Flats pointed out that during the turnover of contractors at the Site, inventories were conducted for all categories of personal property but not for the non-nuclear weapons parts since these parts were of no value.

**Auditor Comments:** The report reflected problems with identifying and controlling parts that were no longer in production and may be classified and vital to ensuring the reliability of some weapons. Although some of the parts may not have been useful in the weapons, they were useful for testing purposes. Further, since some weapons parts are classified, there is a potential security risk if these parts are not adequately controlled. Regarding the inventory not being performed, Management stated in its comments that it considered conducting an inventory of these parts to correct the financial account balance. "At that time, based on the feedback from DOE/AL, it was felt that any non-nuclear parts remaining on site were of no value and the costs of conducting an inventory were not considered commensurate with the benefit to be derived." Further, Management acknowledged that "...an alternative method of recording the remaining inventory balance and preparing the necessary transfer documentation could have and should have been implemented."



# Appendix 1

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## SCOPE

The audit was limited to the non-nuclear weapons parts at the Site. We reviewed accountability records and disposal practices for the period July 1995 to August 1999. The audit was performed from July 1999 through April 2000 at DOE Headquarters, the Site, and Albuquerque Operations Office.

The scope of our audit was constrained and certain audit steps could not be completed because Rocky Flats did not maintain complete and accurate accountability records of the weapons parts. For example, we could not quantify what weapons parts the Contractor was responsible for because there were incomplete records of the beginning inventory, ending inventory, and transactions affecting the inventory of weapons parts. We also could not test the accuracy of financial information because of the lack of supporting records. Further, our observations of the remaining parts were limited to areas where weapons parts were thought to exist because there were no records detailing the location of parts onsite. Accordingly, we cannot be certain that we observed all the remaining weapons parts at the Site.

Our review of shipments was limited to those identified through a judgmental selection of 85 shipments of classified matter, 50 (23 disposal and 27 transfer shipments) of which we concluded contained weapons parts. For example, we counted shipments of beryllium because beryllium was used in weapons parts. Accordingly, we cannot be certain we reviewed all shipments of weapons parts.

## METHODOLOGY

To accomplish the audit objective, we:

- Interviewed Rocky Flats and Headquarters personnel regarding accountability and disposal requirements for weapons inventory;
- Interviewed Albuquerque personnel and reviewed their policies and procedures relating to weapons materials inventory management;
- Interviewed the Contractor's personnel regarding their inventory practices and procedures;
- Reviewed prior audit reports related to the audit objective;



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- Analyzed accounting, property, and shipping documentation to the extent available;
  - Performed limited walk-throughs of the buildings at the Site believed to contain weapons inventory;
  - Reviewed selected performance measures involving weapons parts in accordance with the Government Performance and Results Act; and
  - Reviewed Federal and DOE regulations and local operating policies and procedures relating to the accountability and disposal of non-nuclear weapons inventory.

The audit was performed in accordance with generally accepted Government auditing standards, except as noted above, for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We did obtain computer-processed data; however, this data was not updated or controlled. Accordingly, this casts doubt on the validity of the data. Since the audit objective required specific statements based on this data and independent evidence was unavailable, we were unable to provide specific projections, conclusions, and/or recommendations with respect to the types, quantities, and locations of non-nuclear weapons parts inventory mentioned in the report. An exit briefing was held with appropriate officials on April 21, 2000. Rocky Flats Field Office waived a formal exit conference on June 7, 2000.



## **APPENDIX 2**

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### **SELECTED EXAMPLES OF PRIOR AUDIT REPORTS ON PROPERTY MANAGEMENT**

*Audit of Fuel Processing Restoration Property, DOE/IG-WR-B-96-04, October 20, 1995*

The Department and its contractors did not completely and accurately account for \$54 million of property and promptly redistribute or appropriately excess the property. A significant amount of property was not accounted for in the Department's approved property management system. In addition, over 2,700 stock items had neither been identified for redistribution nor excessed.

*Audit of the Department of Energy's Management of Precious Metals, DOE/IG-0375, June 20, 1995*

The Department had not developed an effective method for disposing of \$10.3 million of excess precious metals. This disposal problem will be compounded in the future when \$36 million of additional precious metals are recovered from dismantled nuclear weapons. Retention of excess metals occurred because the Department did not consider management of precious metals a high priority.

*Summary Report on the Department of Energy's Management of Personal Property, DOE/IG-0344, March 1, 1994*

This report summarized the results of 26 previous OIG reports dealing with personal property. Key issues included the following: (1) the Department was vulnerable to significant future losses as facilities consolidate, missions change, and more property becomes excess to the Department's current needs; (2) property inventory records were not sufficient to identify the types, quantities, location, and cost of personal property inventories; (3) contractors were not properly identifying, storing, and disposing of excess personal property; and (4) contractor property management systems were not reviewed and approved in a timely manner.

*Department of Energy Management of Excess Property, General Accounting Office, GAO/RCED-99-3, November 4, 1998*

The Department of Energy's property records did not consistently provide information that would help identify property that is no longer needed. The Department acknowledged problems with its identification and disposal of excess real and personal property. Department officials cited, for example, a lack of funding for the environmental cleanup of the current inventory of excess real property and a lack of incentives to identify property as excess. Because the costs associated with the maintenance and storage of unneeded property were generally not separately identified, little incentive existed to spend the resources necessary to dispose of it.



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